

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 L-03 TRSE-00 CIAE-00 INR-11

NSAE-00 RSC-01 DRC-01 /044 W

----- 055134

R 121628Z AUG 74

FM AMEMBASSY NASSAU

TO SECSTATE WASHDC 5879

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E. O. 11652: N/A

TAGS: EFIN

SUBJ: SECRETARY'S INITIATIVE ON DOUBLE TAXATION TREATIES

REF: STATE 162751

1. THERE IS AT PRESENT NO COMPARABILITY BETWEEN THE US AND THE BAHAMAS ON WHICH TO BASE A TAX TREATY. THE BAHAMAS CONSIDERS ITSELF A TAX HAVEN AND DOES NOT HAVE INCOME OR CORPORATE TAXES AND ONLY MINIMAL PROPERTY TAXES. FOR THIS REASON THE BAHAMAS SHOULD NOT BE CONSIDERED AS A LIKELY COUNTRY FOR DESIGNATION AS A "TARGET" FOR A TREATY WHICH WOULD DEMONSTRATE OUR WILLINGNESS AND DETERMINATION TO FOLLOW UP ON THE SECRETARY'S INITIATIVE IN THIS AREA.

2. DESPITE THE LACK OF IMMEDIATE PROSPECTS IN THE AREA OF TAX TREATIES, IT IS INCREASINGLY EVIDENT THAT AT LEAST SOME BAHAMIAN OFFICIALS RECOGNIZE THE ESSENTIAL REGRESSIVITY OF THE IMPORT TAX ON WHICH THE GCOB RELIES AND THAT THERE IS NO POSSIBILITY OF A REAL INCREASE IN REVENUES FROM THIS SOURCE. THIS NEW SELF-GENERATED AWARENESS IS BEING REINFORCED BY CONSULTATIONS WITH IMF AND IBRD EXPERTS WHO ARE ASSISTING THE BAHAMAS IN ANALYZING THE COUNTRY'S ECONOMIC PROSPECTS. WHILE THESE CONSULTATIVE EFFORTS OBVIOUSLY ARE NOT PRODUCING THE SINGLE ANSWER TO CONTINUED ECONOMIC GROWTH WHICH BAHAMIAN PLANNERS NATURALLY WOULD LIKE TO HAVE, THEY ARE LEADING TO IN-DEPTH DISCUSSIONS OF WHAT STEPS THE BAHAMAS MIGHT TAKE

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INCLUDING THE EXAMINATION OF ALTERNATE TAX STRUCTURES. THERE

IS STILL A VERY STRONG FEELING, HOWEVER, AMONG GCOB OFFICIALS, THE AMERICAN BUSINESS COMMUNITY AND IMF EXPERTS ALIKE THAT THE BAHAMAS MUST REMAIN, TO SOME DEGREE, A TAX HAVEN. THEY FEEL THAT ANY MOVE IN THE DIRECTION OF CORPORATE TAXATION, NO MATTER HOW SLIGHT, WOULD BE CONSIDERED BY FOREIGN INVESTORS AS ONLY A FIRST STEP AND WOULD SIGNAL THE IMMEDIATE EXODUS OF THE OFF-SHORE BANKS.

3. WHILE IT IS PREMATURE TO SAY THAT THE BAHAMAS IS GOING TO CHANGE ITS TAX STRUCTURE OR THAT WHEN IT DOES SO IT WILL END UP WITH AN INCOME TAX, IT IS NOT PREMATURE TO CONCLUDE THAT THERE IS GOING TO BE A NEED WITHIN THE BAHAMIAN GOVERNMENT FOR A PROFOUND KNOWLEDGE OF US TAX LAW. CONSEQUENTLY AS WE IDENTIFY THOSE IN THE BAHAMIAN GOVERNMENT WHO ARE CHARGED WITH THE SHAPING OF POLICY IN THIS AREA AND AS WE RECEIVE REQUESTS FOR ASSISTANCE AND ADVICE, WE HOPE THAT APPROPRIATE WASHINGTON AGENCIES WILL BE WILLING TO PROVIDE CONSULTANTS.

4. EMBASSY ECON OFFICER DISCUSSED REFTEL WITH EGINALD WOOD, FINANCE SECRETARY AT THE MINISTRY OF FINANCE, WHO EXPRESSED A STRONG INTEREST IN DISCUSSING THESE QUESTIONS WITH SOMEONE WHO HAS A PROFOUND KNOWLEDGE OF US TAX LAW. AT PRESENT, THE BAHAMAS IS REPRESENTED AT INTERNATIONAL CONFERENCES ON TAX TREATIES AND TAX LAW BY AN OREGON-BASED ATTORNEY, MILTON WEISS. AS BEST WE CAN DETERMINE, HE IS THEIR ONLY SOURCE OF INFORMATION ON US TAX LAW AS WELL.

5. COOPERATION WITH THE BAHAMAS IN THIS AREA, EVEN IF CONFINED FOR THE FORESEEABLE FUTURE TO PROVIDING ADVICE AND ASSISTANCE, MAY LEAD NOT ONLY TO FISCAL AND TAX COOPERATION WHICH SERVES OUR MUTUAL INTEREST, BUT ALSO TO THE CREATION OF THE KIND OF UNDERSTANDING ON WHICH WE MIGHT BASE A FUTURE INITIATIVE IN THE BANK SECRECY AREA.

6. WHILE WE HAVE TO OPT OUT OF THE IMMEDIATE EXERCISE, WE WOULD APPRECIATE THE VIEWS OF THE INTERESTED WASHINGTON AGENCIES ON WHAT RESOURCES WOULD BE AVAILABLE TO US TO PURSUE THE POTENTIAL OPPORTUNITIES DESCRIBED ABOVE AS THEY ARISE.
RIDGWAY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TAX AGREEMENTS, DOUBLE TAXATION, INCOME TAXES, REAL PROPERTY TAXES, TAX SHELTERS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974NASSAU01431
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740221-1212
From: NASSAU
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740855/aaaabvhz.tel
Line Count: 99
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 162751
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by elyme>; APPROVED <24 FEB 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SECRETARY'S INITIATIVE ON DOUBLE TAXATION TREATIES
TAGS: EFIN, BF, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005